



**CITY OF DUBLIN
ADMINISTRATIVE ORDERS
OF THE CITY MANAGER**

ADMINISTRATIVE ORDER 5.5	
TO:	All Department/Division Heads & Assistants
FROM:	Marsha Grigsby, City Manager
SUBJECT:	Policy and Procedures Regarding Capital Assets
DATE:	December 21, 2014
Supersedes and Replaces Administrative Order 5.5 dated 12/21/07 Regarding Same Subject.	

I. PURPOSE

The purpose of this Administrative Order is to establish formal organizational policies and procedures regarding the handling of "capital assets", to establish responsibility and authority for the administration and revision of the City's "capital asset" policies and procedures, and to provide direction and guidance to Department/Division Heads regarding the accountability and management of the City's capital assets.

For financial statement reporting purposes, the provisions of this Administrative Order are considered to be effective for the fiscal year ending December 31, 2014.

II. POLICIES:

A. Objectives

The capital asset accounting system shall maintain sufficient information to permit the following:

1. The preparation of year-end financial statements in accordance with generally accepted accounting principles (GAAP).

The Governmental Accounting Standards Board (GASB) requires capital asset reporting in order for a governmental entity to be in conformity with GAAP.

2. Adequate Insurance Coverage

Complete capital asset identification and valuation may prevent the City from being over or under insured.

3. Control and Accountability

The capital asset system will be used to maintain information regarding the location of assets.

4. Debt Security

Capital assets in an enterprise fund may be used as security for debt issued to construct or improve assets of that enterprise fund.

B. Managing and Accounting for Capital Assets

The Office of the City Manager and the Department of Finance are responsible for the development and maintenance of the City's capital asset system. Each Director of a work unit, or his/her designee, shall be responsible for the capital assets of their department/division and shall work with the Office of the City Manager and the Department of Finance in managing and accounting for the City's capital assets.

C. Definition of a Capital Asset

The City defines a capital asset as tangible property, obtained or controlled as a result of past transactions, events or circumstances, which will benefit the City for a period of more than one (1) year.

To qualify for inclusion as a capitalized asset in the City's capital asset system, the following criteria must be met:

1. The asset must be tangible in nature.
2. The asset must have a useful life of more than one (1) year (based on reasonable estimates).
3. The asset must have a cost or dollar value of \$5,000.00 or more.

The \$5,000 value conforms to "Best Practices" criteria established by the Government Finance Officers Association. Assets of lesser value (e.g. computer equipment) may still be tracked for control purposes even if not capitalized for financial statement purposes.

D. Classification of Capital Assets

The capital assets of the City are classified in one of three categories: general capital assets, fund capital assets, or infrastructure.

General Capital Assets

Capital assets purchased from or acquired to benefit general, special revenue, or capital project funds are accounted for as governmental activities capital assets in the government-wide statement of net assets.

Fund Capital Assets

Capital assets purchased from proprietary funds are considered fund assets and are accounted for in the appropriate fund. In general, it has been the policy of the City to also construct and acquire water and sewer lines with resources of capital projects funds, special assessments, or through donations by developers. These assets are recorded in the appropriate enterprise fund, with the dollar value also being reflected as capital contributions.

General Infrastructure

General infrastructure assets are long-lived assets that exist primarily to benefit the general public, are normally stationary in nature, and normally can be preserved for a significantly greater number of years than most capital assets. These assets are capitalized as governmental activity assets in the government-wide statement of net assets.

E. Asset Types and Descriptions

Land

Includes land currently in public use, being held for public use or available for sale.

Buildings

Buildings consist of structures erected above or below the ground for the purpose of sheltering persons or property.

Machinery and Equipment

Machinery and equipment are defined as personal property that is not

attached to land, buildings, or improvements and remains moveable. Examples of items in this category are vehicles, EDP equipment, office machines, etc.

Furniture Fixtures

Furniture and fixtures are also defined as personal property not attached to land, buildings, or improvements and remains moveable. Examples of items in this category are office furniture and workstations.

Improvements Other Than Buildings

This group includes all improvements outside a building or improvements to land. Examples of items in this category are fences, parking lots, park developments, playground equipment, area lighting, etc.

Water and Sewer Lines

This includes the water and sewer lines that are maintained by the City. These include lines constructed at the City's expense and lines constructed by developers and contributed to the City.

General Infrastructure

This includes public domain, long-lived stationary assets such as streets and roads, curbs, sidewalks and bicycle paths, bridges, stormwater sewer lines and drainage structures, street lighting, traffic signals and permanent park improvements such as trails. Only those assets for which it is the City's responsibility to maintain should be capitalized. Expenditures for improvements that are not the City's responsibility to maintain should not be capitalized.

Construction in Progress

Construction in progress is used to account for expenditures accumulated to the balance sheet date relative to the construction of capital assets. Expenditures include construction costs, contractor payments, interest costs incurred applicable to the period of construction, and other costs required to finish the project.

Assets Under Capital Lease

In accordance with GASB Statement #62, any non-cancelable lease agreement, which meets one or more of the following criteria, should be capitalized.

1. The lease transfers ownership of the property to the City at the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75% or more of the estimated economic life of the leased asset.
4. The present value of the minimum lease payments equals or exceeds 90% of the fair value of the leased asset.

If the lease is determined to be a capital lease, the asset will be included as a capital asset of the City and will be appropriately classified.

F. Capitalized Interest

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

G. Capital Asset Valuation

Capital assets of the City shall be valued at historical cost or, if that amount is not practicably determinable, at estimated historical costs. Sources of historical cost can include invoices, canceled checks, contracts, accounting records, real estate closing documents, tax records, appraisers, back-trend multipliers (consumer price indexes), etc.

Inclusions to cost should be analyzed during the valuation process to ensure the capital asset is capitalized at the appropriate amount. Costs to be included in the amount capitalized are as follows by asset type:

Land

Land cost shall include the original purchase price and related costs, such as, liens assumed, legal and title fees, appraisal fees and site preparation, including demolition of existing building, filling, grading and other costs of preparation. In general, all expenditures made to acquire land to ready it for its intended purpose shall be considered as part of the land cost. Any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts from the demolition of old buildings, shall be treated as reductions in the price of the land.

Buildings

The cost of buildings shall include all expenditures related directly to their acquisitions or construction. These costs include purchase price, contract price, fees, such as attorneys, architects, building permits, and capitalized interest if applicable.

Machinery, Equipment, Furniture and Fixtures

The cost of machinery, equipment, furniture and fixtures includes the purchase price, freight and handling charges, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and costs of conducting trial runs. Cost thus includes all expenditures incurred in acquisition and preparing it for use, plus the value of any trade-ins or exchanges.

Water and Sewer Lines

The cost of water and sewer lines shall include all expenditures related directly to their acquisition or construction. These costs include contract price, fees and capitalized interest.

General Infrastructure

The costs of general infrastructure shall include all expenditures related to their acquisition or construction. These costs include: purchase price; installation costs; construction contract price; cost of permanent rights-of-ways; professional fees for required services such as attorneys, architects, engineers or construction management; and capitalized interest if applicable.

Construction in Progress

As previously stated, construction in progress is used to account for cumulative costs incurred up to the balance sheet date relative to the construction of capital assets. A capital projects fund is used to accumulate and record construction-related costs until the asset is complete and placed into service. Then, the construction account is closed to the appropriate capital asset account(s) and the capital asset(s) recorded on the capital assets accounting system.

Assets Under Capital Lease

The capital lease agreement must be analyzed and the asset capitalized based on the computed present value of the future minimum lease payments. If the asset acquired is a general capital asset, the asset will be recorded as a governmental activity capital asset in the government-wide statement of net assets and the present value of the amounts owed for future lease payments will be accounted for as a long-term liability therein. If the asset acquired is a proprietary fund asset, both the asset and the liability, will be reported in the applicable fund.

Donations

Valuation of assets acquired as donations from individuals or organizations will be established based on the fair value on the date of the donation. The valuation of water and sewer lines donated by developers will be based on the project costs submitted and used by the City's Division of Engineering to assess inspection fees.

Transfers Within the City

Transfers of property between governmental funds is merely a change in location, department responsibility, etc., of general capital assets. A transfer of property from a governmental fund to a proprietary fund is a capital contribution that should be valued, in the proprietary fund, at the fair value of the transferred asset on the date of transfer. Likewise, a transfer of an asset from a proprietary fund to governmental fund should be considered as a donated asset in the governmental activities in the government-wide statement of net assets for its fair value on the date of the transfer.

Exchanges and Trades

If an exchange or a trade-in of a capital asset occurs, the capital asset property records are to be updated to reflect the deletion of the capital asset exchanged along with any accumulated depreciation, and the addition of the new asset.

If the asset involved is a General Capital Asset, any gain or loss is recorded as a governmental activity in the government-wide statement of activities. The gain or loss is the difference between the fair value of the new asset, and the net book value of the old asset plus any cash paid.

If the capital asset is a proprietary fund asset, any gain or loss is recorded in the fund. The gain or loss is the difference between the fair value of the new asset, and the book value of the old asset plus any cash paid.

H. Costs Subsequent to Acquisition

Additions, improvements and replacements that increase the future service potential or prolong the useful life of a capital asset should be capitalized. Normal maintenance and repairs that maintain the asset in its present condition should be recorded as expenditures/expenses, and not capitalized.

For infrastructure assets accounted for using the "modified approach" (see Section K.), only those costs that increase the capacity or efficiency of the asset should be capitalized. All other maintenance costs should be recorded as expenses in the government-wide statement of activities.

I. Unit Group Accountability

Individual treatment should be given to all assets, whenever feasible and practical when they are recorded on the capital asset system.

Consideration will be given to grouping assets, based on judgment, in situations where the asset cost or value individually does not meet capitalization criteria, but does so when grouped and/or cases where the assets are only capable of being used together, are connected, and are not intended to be dislocated or used individually. Standard descriptions should be used wherever possible to maintain consistency and indicate the comparability among assets.

J. Depreciation**General Capital Assets**

General capital assets are not capitalized in the funds used to acquire or construct them. Instead, purchases of capital assets are reflected as expenditures in the governmental funds, and the related assets are reported as governmental activity capital assets in the government-wide statement of net assets. Similarly, depreciation on these assets is not charged to the related funds. Instead, it is recorded as a governmental activity expense on the government-wide statement of activities for the function to which the asset relates.

Fund Capital Assets

Capital assets acquired by enterprise funds are capitalized to the funds. Similarly, depreciation expense on the related capital asset is charged to the related fund.

Infrastructure

General infrastructure assets are not capitalized to the funds used to acquire or construct them. Instead, purchases of capital assets are reflected as expenditures in the governmental funds, and the related assets are reported as governmental activity capital assets in the government-wide statement of net assets. Similarly, depreciation on these assets is not charged to the related funds. Instead, it is recorded as governmental activity expense wide statement of activities for the function to which the asset relates.

Road and bridge infrastructure assets are not depreciated. Instead, they are accounted for using a "modified approach" described in Section K. below.

Depreciation Expense – Estimated Useful Lives

<u>ASSET</u>	<u>Life (Years)</u>
Buildings	25-50
Machinery and Equipment	5-20
Furniture and Fixtures	10-20
Improvements Other Than Buildings	10-20
Water and Sewer Lines	40-70
Stormwater Sewers and Structures	40-70
Depreciable Infrastructure	20-50

Useful lives are assigned to each asset unit or determined based on an average for the group. The above estimates, with the exception of water and sewer lines, stormwater, sewers and structures, and infrastructure have been established based on estimates used by an appraisal firm previously engaged by the City. Specific useful lives of individual assets will be maintained on the capital asset register.

The decision as to when depreciation begins or ends can be established many ways. For general capital assets, the City's policy is to calculate depreciation starting in the month of acquisition until the month the asset is disposed of or is fully depreciated.. For infrastructure assets, a full year's depreciation is calculated in the year of acquisition and no depreciation is calculated in the final year of useful life.

K. Modified Approach for Infrastructure

Road and bridge capital asset infrastructure networks will not be depreciated but instead will be accounted for using a "modified approach" established by the GASB. Using this method, asset preservation costs that extend the useful life of the asset are expensed in governmental activities on the government-wide statement of activities instead of being capitalized. The City will use an asset management system that maintains an inventory of its road and bridge infrastructure that periodically performs condition assessments of the infrastructure and that estimates the annual dollar amount needed to maintain and preserve the infrastructure at a minimum condition level.

The City will perform a condition assessment of its road and bridge infrastructure at least once every three years, and more frequently if required by federal or state regulations.

The network condition will be assessed using a rating methodology generally accepted in the industry, that considers all relevant factors affecting overall condition, and results in an overall single rating for each element (road segment or bridge) being considered.

The City's road and bridge infrastructure will be maintained so that no more than 10% of the City's road-miles and bridges are rated in "poor" condition or worse at the time of a condition assessment. Additionally, a majority (50.1%) of the City's road-miles and bridges will be maintained at a "good" condition rating or better.

Roads and bridges rated as "poor" will receive priority consideration for remedial repair or replacement as part of the City's annual Capital Improvement Plan process.

L. Acquisitions

New assets, including donations that are acquired by the City must be reported immediately to the Department of Finance, using the Capital Asset Information Form (Exhibit A). This information shall be provided to the Department of Finance along with the invoice requesting payment. If the invoice does not have the Capital Asset Information Form attached, it will be returned to the originating department. A unique identifying number (or tag) should be affixed to the asset at the first possible convenience. For more details, see "Accounting for Capital Asset Additions" in the procedure section of this manual.

M. Dispositions

Assets may be retired voluntarily or disposed of by sale, exchange or abandonment. Disposals, by any means, must be reported to the Department of Finance using the prescribed Capital Asset Information Form. Chapter 37.08 of the Dublin Codified Ordinances describes the authorized methods of disposal, including: live public auction, internet auction, solicitation of sealed bids, negotiated sale to another government entity, trade-in, scrapping, destruction, discarding, or donation to a charitable organization.

In accordance with Section 37.08, assets not needed for City purposes, for which the estimated value exceeds five thousand dollars (\$5,000), or is a motor vehicle, shall be sold only when authorized by City Council.

The manner for removing assets from the Capital asset subsystem records differs for those appearing as General Capital Assets as opposed to those appearing in the proprietary fund types. This section recaps and defines the general guidelines for each.

General Capital Assets:

Retirement of assets accounted for as governmental activity assets on the government-wide statement of net assets requires a determination of any gain or loss on disposal to be made. If an asset is sold, the gain or loss basis is net book value. The asset record and its related accumulated depreciation are removed from the general ledger to retire the asset. The cash received is posted to the appropriate governmental fund as an 'Other Financing Source'. Cash received plus any gain or loss is reported as a general revenue on the government-wide statement of activities. For assets exchanged for replacements, refer to the section on exchanges or trade-ins in this Administrative Order.

Proprietary Fund Types:

Retirement of assets within Proprietary Fund Types incorporates gains and losses due to the income determination nature of these funds. If an asset is sold, the gain or loss basis is book value. The asset record and its related accumulated depreciation are removed from the individual proprietary fund general ledger to retire the capital asset.

Transfer:

Generally, transfers only involve updating specific information associated with a capital asset record (location code, department code, etc.) and do not involve any changes to an assets useful life, cost, etc. Because transfers do constitute changes or activity in capital asset records (and information necessary for both internal and external financial reporting), they must be reported to the Department of Finance using the Capital Asset Information Form.

For assets exchanged for replacements, refer to section on exchanges or trade-ins in this documentation.

N. Tagging

Capital Assets of the City will be tagged. The primary purpose of a tagging system is to maintain a positive identification of assets owned by the City of Dublin. Effective tagging results in:

1. Providing an accurate method of identifying assets;
2. Facilitating the inventory process on a periodic basis;
3. Controlling the location of all physical assets;
4. Assisting in maintaining capital assets; and,
5. Providing a common ground of communication for both the finance department and the assets users.

Tag location is important and should be consistent to allow for easy physical inventory taking.

Tag numbers may be assigned by the Department of Finance. The number assigned and appearing on the tag will be a single consecutive series of numbers which will be assigned to assets in consecutive order. The use of consecutive numbers will allow each asset to carry the assigned number throughout the entire life, regardless of its location. Once disposition has occurred, the number should be retired.

O. Physical Inventory

A periodic physical inventory is necessary for account-ability and control. It confirms the reliability (or lack of reliability) that can be placed on the capital asset accounting system by verifying the existence of the items

represented by the capital asset records.

Inventories should take place on a regular periodic basis (preferably near the balance sheet date), especially for assets like furniture and equipment that are characterized as being unattached and movable. Periodic physical inventories are costly and time consuming and will be planned around the City's resources to and/or workforce needed to complete them. The frequency and timing of the physical inventory may vary depending on auditing, legal, and insurance requirements.

To minimize the burden and reduce the time and costs of ongoing physical inventories, several options may be used by the City. Those options include the following:

1. Conducting the inventory in phases. Phase inventories may be performed by fewer personnel over a longer period of time, thus interrupting only small areas for periods.
2. Conducting the inventory during slack periods.
3. Rotating inventories so that not all departments/ divisions are taking an inventory every year.

The actual comparison of the physical inventory to the capital asset register is the responsibility of each department/division head or his/her designee.

P. Policy Maintenance

A significant aspect of managing and accounting for capital assets involves maintaining policies that outline and explain the City's handling of capital assets. It may be necessary to periodically review these policies to determine whether they are achieving their intended purpose. The Department of Finance will be responsible for the ongoing maintenance and revision of these policies.

III. PROCEDURES:

A. Accounting for Capital Asset Additions

All purchases of capital assets must follow the competitive bidding requirements of the Ohio Revised Code and the City of Dublin Codified Ordinances if above the threshold minimum. Prior to the actual purchase of the asset, a requisition must be properly executed. If the individual completing the requisition is aware that the purchase is a capital asset, it

should be noted on the purchase requisition. Upon review of the requisitions, a member of the Department of Finance may inquire to determine if the purchase is a capital asset. Upon completion of the requisition process, the Department of Finance will generate a Purchase Order. The Purchase Order will have the words "Capital Asset" stamped directly on the form. The originating department should then obtain a Capital Asset Information Form (available for download from DubNet) to complete when submitting the invoice for payment along with their copy of the purchase order.

Once the asset is received, the completed Capital Asset Information Form must accompany the invoice for payment. The Department of Finance will return the invoice unpaid to the originating department if the form is not attached. Upon receipt of the invoice and Capital Asset Information Form, the Department of Finance will enter the asset into the City of Dublin Capital Asset Register. Procedures for adding capital assets to the accounting records can be found in the Capital Assets software documentation.

B. Accounting for Capital Asset Disposals

Disposals, as well as additions, must be reported on the Capital Asset Information Form. Contingent upon approval by City Council (if necessary), the originating Department will forward the Capital Asset Disposal Form along with any associated asset tag attached, to the Department of Finance for identification of the disposal on the Capital Asset Register. The Department of Finance will maintain the original copy of the Capital Asset Information Form.

A file, for the Capital Asset Information Forms, by year, shall be maintained by the Department of Finance.

Attachment

Capital Asset Information Form

Transaction Type:	Addition	Disposal	[System Asset Number]
Asset Description: *			
Make: *			
Model: *			
Serial Number: *			
Tag/Reference/Vehicle #: *			
Asset Type: *			
Acquisition Date: *			
Purchase Order Number: *			
Assigned Location: *			
Project Number (If Applicable):			
Check Date: *			
Check Number: *			
Vendor Number: *			
Vendor Name: *			
Purchase Cost (See Note): *			
G/L Account Number: *			
Comments (Optional):			

Form Completed By: _____

Date: _____

* Required field

Shaded areas to be completed by Finance staff only

Note - Cost of the asset includes shipping and handling, delivery fees, installation fees, and any other costs incurred to get the asset ready for use.